

Message Text

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ACTION SS-25

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C O N F I D E N T I A L SANTIAGO 7384

EXDIS

EO 11652: GDS
TAGS: EFIN
SUBJ: PETER FLANIGAN'S LETTER ON IRB

FOR DEPUTY SECRETARY ROBINSON ONLY FROM FRANK

BELOW IS TEXT OF DRAFT REPLY TO LETTER FROM PETER FLANIGAN TO YOU. FOLLOWING DRAFT REPLY IS THE TEXT OF THE FLANIGAN LETTER ITSELF. HE WRTOE TO YOU ON JUNE 25. I APOLOGIZE FOR TAKING SO LONG TO DRAFT A REPLY, AND AM CABLING THIS REPLY FROM SANTIAGO BECAUSE I THINK IT SHOULD BE SENT TO HIM ASAP.

BEGIN TEXT OF REPLY. DEAR MR. FLANIGAN: THANK YOU FOR YOUR LETTER OF JUNE 25, INDICATING SOME OF THE CONCERNS YOU HAVE WITH THE WRITE-UP ON THE INTERNATIONAL RESOURCES BANK.

WITH REGARD TO THE FUNCTION OF THE IRB AS A "MOBILIZER" OF CAPITAL, WE DID NOT MEAN TO IMPLY ANY OTHER FUNCTION FOR THE IRB OTHER THAN ITS ROLE AS GUARANTOR. PERHAPS MOBILIZER WAS AN UNFORTUNATE CHOICE OF WORDS. ANOTHER POSSIBLE POOR CHOICE OF WORDS AS THE REFERENCE TO "IRB-SPONSORED PROJECTS". HERE WE MEANT NOTHING MORE THAN THOSE PROJECTS IN WHICH THE IRB WOULD BE INVOLVED. IN FACT WE FEEL THAT THE IRB SHOULD BE INVGLVED IN PROJECTS ONLY WHEN IT IS INVITED BY THE PARTICIPANTS IN THE PROJECT.

YOU ALSO EXPRESS CONCERN ABOUT THE IRB AS ISSUER AND UNDERWRITER OF PROJECT BONDS. THE WORD UNDERWRITER IS USED IN A VERY LIMITED
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SENSE. IN SOME INSTANCES THE IRB MIGHT ACT AS SALES AGENT FOR

PROJECT BONDS. WE DO NOT ENVISION THE IRB AS AN UNDERWRITER IN THE SENSE THAT IT WOULD ASSUME THE FINANCIAL RISK OF SELLING THE BOND SUBSCRIPTION.

THE PRIMARY FUNCTION OF THE IRB IS TO ACT AS GUARANTOR AS I INDICATED TO YOU AT LUNCH SOME TIME AGO. IN SOME INSTANCES, IT MIGHT EXERCISE THE GUARANTEE FUNCTION BY ISSUING A BOND ON BEHALF OF THE PROJECT AND TURN OVER THE PROCEEDS DIRECTLY TO THE PROJECT, IN THE FORM OF A LOAN GUARANTEED BY THE HOST COUNTRY GOVERNMENT. THE ADVANTAGE OF THIS PROCEDURE IS THAT IT WOULD BE POSSIBLE TO USE DEFAULT AND CROSS-DEFAULT PROCEDURES IN ORDER TO ASSURE THAT GOVERNMENT GUARANTEES TO THE PROJECT AND TO THE IRB ARE HONORED. WE ARE STILL OPEN, HOWEVER, ON THIS ISSUE SINCE THERE MIGHT BE PROBLEMS IN HAVING THE IRB ACTUALLY ISSUE PROJECT BONDS.

WE ARE DEVELOPING SOME FURTHER MATERIAL ON THE IRB WHICH GOES INTO THESE MATTERS IN MORE DETAIL.

THANK YOU VERY MUCH FOR YOUR INTEREST. I HOPE WE CAN GET TOGETHER AGAIN SOMETIME. WITH BEST REGARDS, SINCERLY YOURS,
CHARLES W. ROBINSON END TEXT OF REPLY

BEGIN TEXT OF FLANIGAN LETTER TO ROBINSON. DEAR CHUCK: MANY THANKS FOR YOUR THOUGHTFULNESS IN INVITING ME TO LUNCH IN YOUR OFFICE ON MONDAY. NEEDLESS TO SAY, I ENJOYED OUR CONVERSATION.

I HAVE GIVEN CONSIDERABLE THOUGHT TO YOUR COMMENTS REGARDING BOTH THE INTERNATIONAL RESOURCES BANK IN PARTICULAR AND COMMODITY AGREEMENTS IN GENERAL. BASED ON WHAT YOU HAD TO SAY AT LUNCH, I HAVE VERY LITTLE DIFFICULTY WITH THE SUBSTANCE OF YOUR POSITION. I WOULD NOT TRY TO ARGUE STRATEGY.

I DO HAVE A PROBLEM OR TWO WITH THE MEMORANDUM ON THE IRB WHICH YOU GAVE ME. AS I REMEMBER OUR CONVERSATION, YOU INDICATED THE FUNCTION OF THE BANK WOULD BE ESSENTIALLY TO GUARANTEE INVESTMENTS IN DEVELOPING COUNTRIES. THE MEMORANDUM, HOWEVER, INDICATES THAT THE FIRST "FUNCTION" OF THE BANK WOULD BE "TO MOBILIZE" CAPITAL. IT SEEMS TO ME THAT "MOBILIZING" MEANS MUCH MORE THAN "GUARANTEEING". ONE CAN HARDLY SUGGEST THAT OPIC MOBILIZES CAPITAL, OR THAT OUR OWN INSURANCE COMPANIES DO

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IT WHEN THEY INSURE AGAINST CERTAIN RISKS FOR DOMESTIC INVESTMENTS.

ON THE TOP OF PAGE TWO OF THAT MEMORANDUM, IT STATED THAT THE BANK WOULD ACT "AS UNDERWRITER OR ISSUER OF PROJECT BONDS." OBVIOUSLY ANY ACTIVITY OF THIS SORT CAN DISTORT THE MARKET IN A VERY FUNDAMENTAL SENSE AND GOES WELL BEYOND THE GUARANTEEING FUNCTION. SOMEWHAT LATER IN MEMORANDUM, IT IS STATED THAT

"NEW PROJECTS SPONSORED BY THE IRB", THIS AGAIN IS A VAST DIFFERENCE FROM THE GUARANTEE FUNCTION. IT WOULD SEEM TO ME THAT "SPONSORING" INDICATES THE BANK WOULD MAKE THE INITIAL CHOICE OF THE PROJECT AND THEN GO OUT AND FIND THE PRIVATE INVESTORS TO BRING IN AS ITS PARTNERS.

PAGE THREE INDICATES THAT THE "IRB WOULD PARTICIPATE IN FINANCING OF INVESTMENT PROJECTS BY ISSUING OR UNDERWRITING" THE BONDS. AGAIN THIS IS A VERY DIFFERENT FUNCTION FROM THAT CARRIED ON BY AN INSTITUTION SET UP TO INSURE AGAINST EXPROPRIATION.

ALL OF THE ABOVE ARE THE KIND OF THINGS THAT INITIALLY GAVE ME PROBLEMS WITH THE PROPOSAL. TO THE EXTENT THEY REMAIN A PRIMARY FUNCTION OF THE BANK, I CONTINUE TO BE DISTURBED. THE REASON IS THAT THE MARKET, IN THIS INSTANCE, WILL NO LONGER PERFORM THE FUNCTION OF ALLOCATING CAPITAL AGAINST UNLIMITED DEMANDS. TO THE EXTENT THAT THE BANK CONFINES ITS ACTIVITIES TO INSURING AGAINST THE RISK OF EXPROPRIATION, I AM CONFIDENT IT WILL FIND BROAD SUPPORT, TO THE EXTENT, IT BECOMES A RAISER AND LENDER OF CAPITAL, I REMAIN DUBIOUS AS TO ITS VALIDITY.

YOU ASKED FOR MY COMMENTS AND SO YOU HAVE THEM. NEEDLESS TO SAY, I WOULD BE HAPPY TO EXPAND ON MY THOUGHTS WITH ANYONE YOU WISH TO SUGGEST.

WITH WARM PERSONAL REGARDS, AND AGAIN MANY THANKS FOR YOUR HOSPITALITY. YOURS, PETER M. FLANIGAN, MANAGING DIRECTOR
END
TEST OF FLANIGAN LETTER TO ROBINSON.
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